

Statement of
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Before the
Subcommittee on Railroads, Pipelines and Hazardous Materials
The Honorable Jeff Denham, Chairman
Committee on Transportation & Infrastructure, U.S. House of Representatives

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Understanding the Cost Drivers of Passenger Rail

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May 21, 2013

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Thank you for the opportunity to appear before you today, and for your continuing interest in passenger rail.

Broadly speaking, as Amtrak's figures reflect, the major drivers of net costs of Amtrak service are Northeast Corridor (NEC) capital needs and long-distance train operations.

The NEC requires considerable capital investment just to "stay in place." Indeed, there has been some publicly-acknowledged NEC deterioration in recent years. The NEC Infrastructure Master Plan at \$52 billion is heavily oriented towards upgrading the existing tracks and infrastructure. Based on commuter railroads' share of NEC train-miles, commuter rail accounts for roughly half of the costs in the Master Plan.

We have two major concerns regarding the NEC.

- Because tracks at critical segments, key stations, and the overall fleet are near or at capacity, fares continually rise and the proportion of the population who can afford to ride Amtrak's NEC trains continually falls.
- Public discourse has overemphasized the difference between capital and operating costs. This has caused many people to believe that the Northeast Corridor is "profitable" in a private sector sense—and that the NEC could continue operating if federal funding for Amtrak ceased and all or most non-NEC services eliminated. For

example, in a June 28, 2011, broadcast on *All Things Considered*, Robert Siegel said, “The heavily populated Northeast Corridor, from Washington to Boston, is the only segment of Amtrak’s national service that is profitable.”

The reality, of course, is that without federal capital support, the NEC’s downward drift would accelerate into a death spiral.

When Amtrak reports that passenger and other non-federal revenues cover 88% of operating costs, that is the net result of NEC revenues exceeding *non-capital* costs and, elsewhere in the network, operating costs exceeding revenues.

The key word is “network” – Amtrak’s individual routes are part of an interactive and interdependent system. The impact of eliminating any route or group of routes is not easy to predict, as it involves assumptions about what would happen to revenues from passengers making connections, as well as distinguishing between costs that would be eliminated and those that would be shifted to surviving trains.

The net cost of operations for the long-distance trains should be put in context with the huge capital needs of the NEC (and other short corridors).

- Long-distance, fully-allocated net cost declined from \$597.7 million in FY 2011 to \$591.0 million in FY 2012.
- Fully-allocated figures vastly overstate what could be saved by eliminating services, since so many costs are fixed and—in the event of discontinuance of a route or routes—would simply be reassigned to surviving services. For example, only two major terminals—New Orleans and Miami—are solely devoted to long-distance trains. If, as we anticipate, Amtrak is able to improve interconnectivity by moving from its isolated Miami station into the new Miami Intermodal Center, also occupied by Tri-Rail, Miami would be eliminated from that list as regards its passenger terminal (though not support facilities).

The long-distance trains are heavily used by people who get on and off at intermediate points. About one-third of trips are 501-999 miles, with a slightly larger proportion making trips over 1,000 miles and a slightly smaller proportion making trips 500 miles or less.

In Fiscal 2012, the long-distance trains accounted for 43% of all Amtrak intercity passenger-miles. (A passenger-mile is one passenger traveling one mile.) In 23 states, the long-distance network is the *only* Amtrak service. That number rises to 25 if one includes the Oklahoma City-Fort Worth *Heartland Flyer* which likely would not outlive the *Texas Eagle* – the two trains share facilities at Fort Worth and a substantial portion of *Flyer* passengers connect with the *Eagle*. Thus, elimination of the *Eagle* would substantially increase *Flyer* costs while reducing its revenues.

NARP urges policymakers to focus on expanding long-distance services, not reducing them.

1. Lengthen trains, increase frequencies and fill gaps in the national network, creating a comprehensive web of routes that provides convenient connectivity at major hubs;

2. **Make track, signal and station improvements** that decrease trip times and increase on time performance; and
3. **Procure high-performance, modern equipment** suitable for overnight and longer distance trips.

Eliminate Routes?

Amtrak's network also is so skeletal that attempts to eliminate individual routes would seriously weaken the system's credibility. It also likely would lead to wasting an incredible amount of energy – starting with Amtrak staff time but also including yours and many others'. As well, there is scant evidence that elimination of routes has resulted in meaningful improvements to Amtrak's bottom line. The biggest route cuts in Amtrak's history occurred in 1979 and were justified primarily by lack of enough acceptable rolling stock.

In the 1980s, Amtrak sought to discontinue rail service between Tampa and St. Petersburg, replacing it with bus service. This was accomplished. Afterwards, however, then Amtrak President W. Graham Claytor Jr. told his staff that—if he had known up front the costs of the change, including executive staff time—he would not have proposed the change.

In 2005, Amtrak “suspended” the *Sunset Limited* east of New Orleans after Hurricane Katrina destroyed some of the CSX infrastructure. That infrastructure was restored “better than new” within about six months, but the train remains suspended, and its discontinuance remains a major source of ill will towards Amtrak and the federal government. NARP frequently cites this as our biggest disagreement with Amtrak.

We have criticized the statutorily mandated report Amtrak did on restoration costs, for example, inclusion of costs for a station in Sanford which is not needed. Significant ADA-related costs were included for all stations, something which Amtrak has not required in the case of other weather-related service outages. These costs helped insure that the service is not restored, and the outcome is that the ADA community—which benefits disproportionately from Amtrak service—has no service at all on this route. Amtrak reported that 42% of passengers with disabilities who traveled on Amtrak in fiscal 2010 rode long-distance trains.

A major campaign by Gulf Coast mayors to get New Orleans-Florida back into the Amtrak system is focused on 100% federal funding.

Public Wants More Trains, not Fewer

Amtrak on October 10, 2012, reported 31.2 million intercity passengers in Fiscal 2012 – “the ninth ridership record during the last ten years.” On April 9, 2013, Amtrak reported that ridership increased during the first half of Fiscal 2013 in spite of the “significant hit” that the NEC took from Superstorm Sandy. Individual monthly records were set in October, December and January.

The growth affects all segments of Amtrak service and all parts of the country. From 1997 to 2012, ridership on Amtrak's long-distance trains rose almost 20% even though capacity was

not increased. The above-referenced October release said “all 15 Amtrak long-distance routes experienced an increase in passengers resulting in their best combined ridership numbers in 19 years.”

Non-NEC short-distance corridors have been key drivers in the systemwide growth. As the Brookings Institution has reported, from FY 1997 to FY 2012, “Amtrak’s total boardings and alightings jumped 55.1%. ... This:

- “outstrips population growth (17.1%) more than threefold over the same period;
- “exceeds the growth in real gross domestic product (37.2%);
- “more than doubled the growth in domestic aviation passengers (20.0%); and
- “far exceeded the growth in driving (measured by vehicle miles traveled per year; 16.5%) and transit trips (26.4%).”

On the comparison with other transport modes, Brookings noted, “all three modes do carry larger aggregate quantities of people, but these growth trends serve as evidence of changing attitudes towards train travel.”

Those attitudes are reflected elsewhere, particularly in statistics relating to younger people. An April 2012 Frontier Group study notes, “From 2001 to 2009, the average annual number of vehicle-miles traveled by young people (16 to 34-year-olds) decreased from 10,300 miles to 7,900 miles per capita—a drop of 23 percent.”

- Over that period, 16-to-35-year-olds took 24% more bicycle trips and were 16% more likely to walk to their destinations. And from 2000 to 2010, the share of those aged 14 to 34 without drivers' licenses grew by 5%.
- “Sheryl Connelly, Ford’s futurologist, said the carmaker ... [noticed] the proportion of 16-year-olds holding a drivers license in the U.S. fell from 50 to 30% in the 30 years to 2008” (*Financial Times*, Dec. 24, 2012).
- A 2011 Zipcar survey found that 48% of 18- to 24-year-old U.S. drivers said they’d rather have Internet access than a car, if they had to choose one or the other. This reflects that people can “stay connected” while riding public transportation but cannot (or should not) while driving.

Driving Down: In February, 2013, travel on all US roads was down 1.4 % or roughly 3.1 billion miles driven compared with February 2012, according to Federal Highway Administration data, while cumulative travel declined only 0.4 percent over the same period.

Since June 2005, VMT on all US roads declined an estimated 8.75 percent, according to Advisor Perspectives researcher Doug Short. The correlation between gas prices and miles driven is actually rather weak. More relevant factors include the aging population (seniors moving to areas where they don't need to drive as much), continuing high unemployment, the increased ability to telecommute made possible by the Internet, and the increased availability of attractive and reliable public transportation (witness the growth of rail transit systems in such places as Denver, Dallas, Salt Lake City and Seattle).

“The amount of driving in the United States in 2040 is likely to be lower than is assumed in recent government forecasts. This raises the question of whether changing trends in driving are being adequately factored into public policy.” That is a report, “A New Direction: Our Changing Relationship with Driving and the Implications for America’s Future,” released May 14 by U.S. Public Interest Group Education Fund.

Airline and Intercity Bus Reducing Service to Small Markets to focus on larger markets. A study released this month by the Massachusetts Institute of Technology found that, from 2007 to 2012, 1.4 million yearly scheduled domestic flights have been cut from the U.S. air transportation system—a decline of 14%.

The nation’s small-hub and medium-hub airports have been disproportionately affected by these cuts, with 18% and 26% service reductions, respectively. Small, non-hub airports have been hit the hardest, with a 21% drop in domestic departures. The study predicts further consolidation of air service to larger hubs and markets.

“Discount king Southwest, known for its frequent service to midsize airports, is behaving more like the larger network airlines, exacerbating the downward trend, according to the MIT study. Southwest expanded by 6% at the busiest airports while cutting nearly 10% of its flights from smaller airports from 2007 through 2012, according to the MIT researchers” (*Wall Street Journal*, May 8, 2013).

According to a September 28, 2011, *Wall Street Journal* report headlined “Airline Mergers Leave Airports off the Radar,” “Since 2005, the number of flights from Cleveland’s Hopkins International airport are off 23%; Pittsburgh’s are down 49% and St. Louis’s are 36% lower.”

An estimated 3.5 million rural residents lost intercity transportation access between 2005 and 2010; an additional 3.7 million lost access to at least one transportation mode. America’s senior citizens are especially vulnerable. By 2015, more than 15.5 million Americans 65 and older will live in communities where public transportation is small or non-existent (*The U.S. Rural Population and Scheduled Intercity Transportation in 2010: A Five-Year Decline in Transportation Access*, U.S. DOT Bureau of Transportation Statistics, February 2011).

Polls: A DFM Research poll finds strong support for Amtrak in three conservative districts: IL-13 in February (Champaign/Decatur/etc.), MO-8 in March (includes Poplar Bluff), and the state of North Dakota in October 2012.

- 65% [52% of R’s]: Amtrak funding should continue or increase;
- 21% [31% of R’s]: Eliminate Amtrak funding.

From the survey: “While the surveys were done at different times during the past five months, and often asked questions that were unique to the district, the one universal thread in all three districts is the strong level of support for Amtrak government funding, and the desire for additional options for passenger rail service in their communities.”

Other notable findings include:

- By a 4-to-1 ratio (72-17%), constituents under age 45 support keeping/increasing government funding of Amtrak, versus eliminating funding; the 55 percent positive gap is the highest among all age groups. Those over-age-65 show a 43 percent positive gap, and age 45-64 show a 35 percent positive gap. The gap refers to the difference between those who want to keep/increase funding as opposed to those who want to eliminate funding.
- Women are more likely to support government funding of Amtrak, with a 50 percent positive gap (68-18% support level) than men, who have a 35 percent positive gap (62-27% support level)
- By a 3.5-to-1 ratio (69-21%), self-identified Independents support keeping/increasing government funding. Democrats have a 70 percent positive gap (80-10% support level), and over 50 percent of self-identified Republicans show support for Amtrak funding.

The train questions were asked for the United Transportation Union. The poll is at <http://dfmresearch.com/Projects.html>

A September, 2012, national poll of 800 Americans done for Natural Resources Defense Council found:

- Majority wants more travel options and is aware that the transportation system needs major change
- 58% would use transit more often, but it's not conveniently available
- 64% believe their community would benefit from expanded rail or bus systems.
- To reduce traffic congestion, 42% favor improving public transportation; 21% favored development of less car-dependent communities; only 20% favored building more roads; 17% said "all of the above" or "not sure."

On-Board Food and Beverage Service

This committee has a long history of interest in this aspect of Amtrak's business. At this subcommittee's June 9, 2005, hearing on this subject, then-Amtrak Senior Vice President—Operations William L. Crosbie testified, "Amtrak's food and beverage service is a fundamental part of the service that we offer on board the majority of the trains that we operate on a daily basis. Its primary purpose is to enhance ticket sales and ridership, not serve as a profit center. Food service in the travel industry is not meant to make a profit. The business model, price elasticity, and regulatory and statutory hurdles are too great for Amtrak, or any other entity of the size and reach of Amtrak, for that matter, to ever break even on a consistent basis, let alone make a profit. ... The passenger often has a level of expectation based on the length of the trip and the first-class passenger expects premium service for the premium price he or she pays."

Much has been made of Amtrak's selling hamburgers for more than they cost at a Major League Baseball park. On April 1, Amtrak informed me, "The selling price of our Angus Cheeseburger on all café cars is \$6.25. This menu item is a 4.5 oz burger on a kaiser roll. The selling price of our Angus Steak Burger on all long distance service menus is \$9.75 [for] a

4.5 oz burger on a sesame bun, with or without cheese, served with lettuce, tomato, red onion, dill pickle and kettle chips. It is served with coffee, tea or milk.”

It is sometimes represented that, since Amtrak has a captive market, food service should be profitable. The problem is that the vendor is equally captive – the market is restricted to people who are riding the train long enough to want to buy food. Passengers also can minimize or eliminate the need to purchase on-board by bringing their own food with them.

Finally, comments are made about labor costs. One reason labor costs are higher is that on-board personnel have safety training and safety responsibilities that their fast-food counterparts do not. Also, on-board employees often have irregular schedules and long stretches away from home.

Cost Shift to States?

There has been some discussion about shifting cost of the long-distance trains to the states. However well-intentioned this recommendation may be, in practical terms it would be a death sentence for the long-distance trains. In passing the 2008 authorization law, Congress recognized the long-distance trains as a logical, federal responsibility. Simply put, these trains could not survive a mandate that they get state support.

Under Section 209 of the 2008 law (PRIIA), Amtrak and the states are negotiating state take-over of funding responsibility for most of the costs associated with trains with routes up to 750 miles long. This has involved some agreements among up to three states. Given the difficulty of achieving those agreements – and none are ‘cast in concrete’ yet – one Amtrak official close to the process told me he could not begin to imagine achieving agreement among a larger number of states, let alone the seven or eight that the Chicago-West Coast trains traverse. The New York-New Orleans *Crescent* serves 12 states plus the District of Columbia.

For a route to survive, every state would have to agree not only to fund the service but also on schedules, service amenities, and cost allocations among the states. That means funding service in the middle of the night in most of Nebraska because of the crucial marketing importance of hitting the Chicago, Denver and Bay Area markets at attractive hours.

Any single state not cooperating would torpedo an entire route, and—as noted above—any route dropped from the system would shift some costs to surviving routes. As well, the revenue impact on surviving routes would mainly be negative, due to loss of connecting traffic.

Massachusetts: Through most of the 1970s, the commuter rail system in Eastern Massachusetts was funded by the 79 cities and towns that comprised the MBTA. They paid for the system under a formula that discouraged efforts to promote ridership, since the more riders a community had the more it had to pay for the service. This arrangement also made service extensions outside “the 79” difficult and inefficient. For example, Newburyport and Haverhill/Lawrence service consisted of single weekday round-trips to/from Boston’s North

Station; these trains generally did not make intermediate stops inside the MBTA region – this kept the accounting clear even though it made for a less efficient operation.

This makeshift arrangement partly reflected lack of commitment by transportation planners to keeping commuter rail. The master plan was to do what had been accomplished in the Southeast of Boston – replace commuter rail with heavy rapid transit lines inside Route 128 (Boston's Beltway) and eliminate rail service beyond 128.

Finally, the Commonwealth made a commitment to keeping and developing commuter rail. It became a state responsibility. Today, frequent service is offered well beyond the MBTA region, including to Worcester, Fitchburg, Haverhill/Lawrence and Newburyport, as well as Providence and two other Rhode Island stations under an agreement with Rhode Island. The system is regarded as highly successful and, in blizzard conditions, more resilient than other public transportation in the area. The relevant point here is that state- rather than city-based funding is appropriate for commuter rail in Massachusetts, so also is federal rather than state-based funding appropriate for Amtrak's long-distance trains. As a side note, I take some pride in having authored—in my previous job in Massachusetts—a white paper on commuter rail for Gov. Francis W. Sargent's (R) assistant secretary of transportation & construction. This paper helped lay the groundwork for saving and subsequently developing that commuter rail network.

Cost Drivers on Other Modes

Our members are bemused by the intense focus inside the Beltway on “subsidies to passenger trains” while highways and aviation appear to get a free pass. Starting in 2008, a total of \$53.3 billion in general funds have been transferred to the Highway Trust Fund (HTF). That's about three times what the federal government has spent on Amtrak operating grants over 42 years.

What's worse, once this money is transferred to the HTF, it takes on the same restrictions as if it had been paid by highway users – in general, railroads need not apply. This is but one example of transportation policy out of touch with demand trends cited above, and one reason why we frequently hear that “the public is ahead of the politicians.”

For aviation and highways, subsidies are scattered over many different balance sheets; they are less concentrated and less obvious than Amtrak's. For example, the September, 2011, WSJ story quoted above has this: “Pittsburgh continues to pay a \$62 million annual debt service on its airport, where large sections are blocked off and unused....”

Proposed Funding

We support the budget requests of the Administration and Amtrak and are pleased to note that they are consistent. Amtrak has requested \$2.6 billion and the Administration's \$6.7 billion request includes \$2.7 billion for Amtrak.

The major reason for the different numbers is that the Administration includes work beyond Amtrak – both high speed rail projects that might be operated by someone other than Amtrak and capital grants to states to upgrade routes that Amtrak uses or could use in the future.

As we understand it, the Administration's request, which they submitted by function, is:

- \$2.7 billion for Current Passenger Rail Service, including:
 - \$675 million for the Northeast Corridor
 - \$300 million for state corridors
 - \$800 million for Amtrak's long-distance routes
 - \$925 million for National Assets
- \$3.7 billion for the Rail Service Improvement Program, including:
 - \$3.25 billion for Passenger Corridors
 - \$150 million for Congestion Mitigation (Freight and Passenger)
 - \$190 million for Freight Capacity
 - \$70 million for Planning

We also would like to highlight \$1 million for the continued work of the Next Generation Equipment Committee.

Amtrak's \$2.65 billion request includes:

- \$373 million for operations
- \$1,271 million for general capital
- \$75 million for Americans with Disabilities Act work
- \$356 million for badly needed rolling stock acquisitions
- \$196 million for "equipment lease buyouts funded in previous years by the U.S. Department of the Treasury"
- \$167 million for the Gateway Project to increase capacity, redundancy and resiliency between New York City and New Jersey (including new Portal Bridge over the Hackensack River)
- \$212 million for debt service

Energy Efficiency

Already, Amtrak is:

- 41% more energy efficient per passenger-mile than personal trucks;
- 34% more than automobiles;
- 17% more than commercial aviation.

Commuter trains are 16% more energy efficient per passenger-mile than cars and 25% more energy efficient than personal trucks.

(Source: Oak Ridge National Laboratory, *Transportation Energy Data Book, Edition 31*[2012])

Even undercapitalized Amtrak is improving its energy efficiency with improved operating practices and higher load factors. Proper funding allowing Amtrak to modernize its fleet will further boost its energy advantage. The next step in improving fleet efficiency is delivery of 70 new electric locomotives from Siemens, the first of which was unveiled in Sacramento on May 13. This acquisition was procured by a RRIF loan. *Trains are the only form of transportation with a demonstrated ability to move large numbers of people long distances using only electricity.*

Already, Amtrak helps mitigate direct and indirect air pollution by:

- Running electric locomotives on the Northeast Corridor and fuel-efficient diesels elsewhere
- Removing tens of millions of passengers a year from highways
- Encouraging denser development around many of its stations.
- Adding to the attractiveness and cost-effectiveness of transit systems by serving passengers making connections and by sharing facilities

The value of passenger train investment is underlined by the May 10 report that the concentration of carbon dioxide in the atmosphere has risen above 400 parts per million, and the rate of increase in atmospheric CO₂ concentrations has accelerated from about 0.7 ppm per year in the late 1950s to 2.1 ppm over the past ten years (Hawaii's Mauna Loa Observatory). "The evidence is conclusive that the strong growth of global carbon dioxide emissions from the burning of coal, oil and natural gas is driving the acceleration," according to National Oceanic and Atmospheric Administration climatologist Pieter Tans (*Financial Times*, May 11).

The last time atmospheric CO₂ concentrations were as high as they are now, Earth's average temperature was 3-4°C warmer than it is today. "Many scientists fear warming of 2°C or more will cause a far less predictable climate, with many more incidents of extreme weather such as the disastrous floods and droughts many countries have experienced in recent years," according to the *FT* report.

Thank you for considering our views.

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